

**THE OFFICE OF REGULATORY STAFF
DIRECT TESTIMONY AND EXHIBITS
OF
CHRISTINA L. SEALE
DECEMBER 3, 2012**



DOCKET NO. 2012-177-WS

**Application of Tega Cay Water Service,
Incorporated for Adjustment of Rates and
Charges and Modifications of Certain Terms
and Conditions for the Provision of Water
and Sewer Service**

DIRECT TESTIMONY OF CHRISTINA L. SEALE

FOR

THE OFFICE OF REGULATORY STAFF

DOCKET NO: 2012-177-WS

IN RE: APPLICATION OF TEGA CAY WATER SERVICE, INCORPORATED

FOR ADJUSTMENT OF RATES AND CHARGES AND MODIFICATIONS OF

CERTAIN TERMS AND CONDITIONS FOR THE PROVISION OF WATER AND

SEWER SERVICE

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND
OCCUPATION.**

A. My name is Christina L. Seale. My business address is 1401 Main Street,
Suite 900, Columbia, South Carolina, 29201. I am employed by the South
Carolina Office of Regulatory Staff (“ORS”) in the Audit Department, as an
Auditor.

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND
EXPERIENCE.**

A. I received a Bachelor of Science Degree with a major in Accounting and a
minor in Computer Systems and Applications from Columbia College in 2000.
From 2000 to 2004, I was employed by the South Carolina Office of the State
Auditor. In that capacity, I performed agreed-upon procedures engagements and
statewide single audits of various state agencies in South Carolina. In January

1 2005, I began my employment as an auditor with ORS and have testified and
2 participated in numerous rate cases and various other filings for utility companies.

3 **WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
4 **PROCEEDING?**

5 **A.** The purpose of my testimony is to set forth my findings and
6 recommendations resulting from ORS's examination of the application of Tega Cay
7 Water Service, Inc. ("Tega Cay" or "Company") in this docket. The application
8 was filed on August 8, 2012.

9 **Q. PLEASE DESCRIBE THE PROCEDURES USED TO PERFORM THE**
10 **EXAMINATION OF TEGA CAY'S APPLICATION.**

11 **A.** ORS's examination of Tega Cay's application consisted of three major
12 steps. In step one, ORS verified that the operating experience and rate base,
13 reported by Tega Cay in its application, were supported by the Company's
14 accounting books and records for the test year. In the second step, ORS tested the
15 underlying transactions in the books and records for the same period to ensure
16 that the transactions were adequately supported, had a stated business purpose,
17 were allowable for ratemaking purposes, and were properly recorded. Lastly, our
18 examination consisted of adjusting, as necessary, the revenues, expenditures, and
19 capital investments to normalize the Company's operating experience and rate
20 base in accordance with generally accepted regulatory principles and Public
21 Service Commission of South Carolina ("Commission" or "PSC") orders.

22

Q. PLEASE IDENTIFY THE EXHIBITS ATTACHED TO YOUR TESTIMONY.

A. I have attached the following exhibits to my testimony relating to Tega Cay's application:

- Audit Exhibit CLS-1: Operating Experience, Rate Base, and Rates of Return for Combined Operations
- Audit Exhibit CLS-2: Operating Experience, Rate Base, and Rates of Return for Water Operations
- Audit Exhibit CLS-3: Operating Experience, Rate Base, and Rates of Return for Wastewater Operations
- Audit Exhibit CLS-4: Explanation of Accounting and Pro Forma Adjustments
- Audit Exhibit CLS-5: Depreciation and Amortization Expense Adjustments
- Audit Exhibit CLS-6: Computation of Income Taxes
- Audit Exhibit CLS-7: Cash Working Capital Allowance
- Audit Exhibit CLS-8: Return on Equity

These exhibits were either prepared by me or were prepared under my direction and supervision in compliance with recognized accounting and regulatory procedures for water and wastewater utility rate cases. These exhibits show various aspects of Tega Cay's operations and financial position.

Q. PLEASE DESCRIBE THE FORMAT OF AUDIT EXHIBIT CLS-1 AND ELABORATE ON THE CALCULATIONS.

A. Audit Exhibit CLS-1 shows Tega Cay's operating experience, rate base, and rates of return for water and wastewater operations for the test year ended

December 31, 2011. The exhibit's format is designed to reflect the Application per books and ORS's proposed accounting and pro forma adjustments necessary to normalize the results of Tega Cay's test year operations.

Column (1) shows the Application per books calculated by Tega Cay for the test year ended December 31, 2011.

Column (2) shows ORS's proposed accounting and pro forma adjustments designed to normalize the Application per books. An explanation of each adjustment is contained in Audit Exhibit CLS-4.

Column (3) shows ORS's result of a normalized test year for Tega Cay by adding columns (1) and (2). After the accounting and pro forma adjustments, Net Income for Return of \$102,510 was computed using Total Operating Revenues of \$1,244,845, less Total Operating Expenses of \$1,142,583, plus customer growth of \$248. Total Rate Base amounted to \$4,160,978 producing a Return on Rate Base of 2.46%. As shown on Audit Exhibit CLS-8, the resulting Return on Equity was (1.69%).

Column (4) shows Company's proposed increase recalculated by ORS and the calculation of taxes and customer growth associated with the proposed increase. An explanation of each adjustment is contained in Audit Exhibit CLS-4.

Column (5) shows the effect of the Company's proposed rate increase by adding columns (3) and (4). Net Income for Return of \$522,642 was computed using Total Operating Revenues of \$1,929,971, less Total Operating Expenses of \$1,408,603, plus customer growth of \$1,274. Total Rate Base amounted to \$4,160,978

1 producing a Return on Rate Base of 12.56%. As shown on Audit Exhibit CLS -8,
2 the resulting return on equity was 18.60%.

3 **Q. PLEASE EXPLAIN THE ADJUSTMENTS IN AUDIT EXHIBIT CLS-4.**

4 **A.** For comparative purposes, ORS and the Company's adjustments are both
5 presented in Audit Exhibit CLS-4.

6 Adjustment 1 – The ORS Water and Wastewater Department proposes to annualize
7 water and wastewater service revenues for the test year. Details of the adjustments
8 totaling \$13,683 are discussed in the direct testimony of ORS Water and
9 Wastewater witness, Willie Morgan.

10 Adjustment 2 – The ORS Water and Wastewater Department proposes to adjust
11 miscellaneous revenues for the test year. Details of the adjustment for (\$5,187) are
12 discussed in the direct testimony of ORS Water and Wastewater witness, Willie
13 Morgan.

14 Adjustment 3 – ORS proposes to adjust uncollectible accounts associated with the
15 Company's revenues after ORS's proposed accounting and pro forma
16 adjustments. The adjustment of (\$40) was provided by ORS Water and
17 Wastewater witness, Willie Morgan, and is discussed in his direct testimony.

18 Adjustment 4 – ORS proposes to adjust operators' salaries by annualizing the
19 latest available salary information as of August 2012. Each operator's total salary
20 is allocated to Tega Cay based on its percentage of Equivalent Residential
21 Connections ("ERC"). The ERC percentage is calculated by dividing the number
22 of customers served by Tega Cay by the total number of customers served by all
23 subsidiaries to which the employee is assigned. ORS computed annualized

salaries of \$163,175, less per book salaries of \$161,519, for an adjustment of \$1,656.

Adjustment 5 – ORS does not propose to adjust purchased water expenses. The credit balance indicates that more revenue was collected than expense incurred for water purchased by Tega Cay during the test year. This is consistent with ORS’s treatment of this account in the prior rate case.

Adjustment 6 – ORS proposes to remove deferred maintenance expenses of (\$9,012) consistent with Order No. 2010-557, issued in Docket No. 2009-473-WS.

Adjustment 7 – ORS proposes to remove maintenance and repair expenses of (\$400) not associated with Tega Cay.

Adjustment 8 – ORS proposes to remove maintenance and repair expenses of (\$480) incurred outside of the test year.

Adjustment 9 – ORS proposes to adjust maintenance and repair expenses to include expenditures booked to plant that should have been expensed. The adjustment of \$38,535 was provided by ORS Water and Wastewater witness, Willie Morgan.

Adjustment 10 – ORS proposes to remove late fees of (\$180) included in maintenance testing by Tega Cay.

Adjustment 11 – ORS proposes to remove expenses not associated with Tega Cay operations of (\$4,001) from maintenance testing.

Adjustment 12 – ORS proposes to reclassify all meter reading expenses of \$6,578 from wastewater operations to water operations per ORS Water and Wastewater Department’s recommendation.

1 Adjustment 13 – ORS proposes to remove chemical expenses of (\$14,754) not
2 associated with Tega Cay operations.

3 Adjustment 14 – ORS proposes to reclassify the remaining chemical expenses of
4 \$20,193 from water operations to wastewater operations per ORS Water and
5 Wastewater Department’s recommendation.

6 Adjustment 15 – ORS proposes to adjust plant for time spent by operators on
7 capital projects during the test year. ORS calculated operating expenses charged
8 to plant of (\$98,019), less per book amount of (\$97,030), for an adjustment of
9 (\$989).

10 Adjustment 16 – ORS proposes to adjust office salaries by annualizing the latest
11 available salary information as of August 2012. Each office employee’s total
12 salary was allocated to Tega Cay based on its percentage of ERCs. ORS
13 computed annualized salaries of \$88,454, less per book salaries of \$91,697, for an
14 adjustment of (\$3,243).

15 Adjustment 17 – ORS proposes to remove nonallowable amounts for DHEC fines
16 and holiday events from office supplies and other office expenses of (\$60,074).

17 Adjustment 18 – ORS proposes to amortize rate case expenses incurred for this rate
18 case proceeding and include unamortized rate case expenses from the prior rate
19 case from Docket No. 2009-473-WS. ORS verified documented rate case expenses
20 of \$23,509 as of November 1, 2012, and unamortized rate case expenses of
21 \$37,794. The total amount of \$61,303 was amortized over a three-year period
22 resulting in the test year amount of \$20,434, less the per book amount of \$61,170,
23 for an adjustment of (\$40,736).

1 Adjustment 19 – ORS proposes to annualize pension and other benefits associated
2 with the salary adjustment for operators and office employees. Total ORS
3 computed pension and other benefits was \$50,070, less the per book amount of
4 \$57,734, resulting in an adjustment of (\$7,664).

5 Adjustment 20 – ORS proposes to remove undocumented expenses of (\$2,363)
6 from insurance expenses.

7 Adjustment 21 – ORS proposes to remove nonallowable expenses of (\$50)
8 associated with DHEC penalties and fines.

9 Adjustment 22 - ORS proposes to adjust engineering fees by \$7,184. Tega Cay
10 capitalized these expenses and in error removed them from outside services twice.

11 Adjustment 23 – Based on the recommendations of the ORS Water and Wastewater
12 Department, ORS proposes the Company's Leak Mitigation Program be denied.
13 Further explanation of ORS's position regarding Tega Cay's proposed Leak
14 Mitigation Program is provided in the direct testimony of ORS Water and
15 Wastewater witness, Willie Morgan.

16 Adjustment 24 – ORS proposes to remove nonallowable expenses of (\$253)
17 associated with DHEC penalties and fines.

18 Adjustment 25 – ORS proposes to annualize depreciation expense and adjust for net
19 plant additions and capitalized time. The details of the depreciation expense
20 adjustment are shown in Audit Exhibit CLS-5. The depreciation rates were
21 recommended by ORS Water and Wastewater witness, Willie Morgan. ORS's total
22 depreciation expense amounted to \$264,630, less the per book amount of \$259,474,
23 for a total adjustment of \$5,156.

1 Adjustment 26 – ORS proposes to annualize the amortization of contributions in aid
2 of construction (“CIAC”). The details of the amortization of CIAC adjustment are
3 shown in Audit Exhibit CLS-5. ORS’s total CIAC amortization expense amounted
4 to (\$130,473), less the per book amount of (\$130,432), for a total adjustment of
5 (\$41).

6 Adjustment 27 – ORS proposes to adjust payroll taxes associated with the adjusted
7 test year salaries. The payroll taxes include social security and unemployment
8 taxes. ORS computed taxes of \$22,429, less the per book amount of \$22,446,
9 resulting in an adjustment of (\$17).

10 Adjustment 28 – ORS proposes to adjust gross receipts and utility/commission
11 taxes. A total factor of .0093559, comprised of the SC Department of Revenue
12 factor of .003 and the PSC/ORS factor of .0063559, was used to compute this
13 adjustment. ORS proposes to decrease gross receipts taxes by (\$3,360).

14 Adjustment 29 – ORS proposes to adjust personal property, general, and real estate
15 taxes to reflect the actual test year amount. ORS calculated personal property,
16 general and real estate taxes to be \$156,387, less the per book amount of \$156,593,
17 resulting in an adjustment of (\$206).

18 Adjustment 30 – ORS proposes to adjust income taxes after accounting and pro
19 forma adjustments. ORS used a 5% rate for state income taxes and a rate of 35%
20 for federal income taxes. Details of the computation of income taxes are shown in
21 CLS-6.

1 Adjustment 31 – ORS proposes to adjust customer growth after the accounting and
2 pro forma adjustments. The growth factors of .0028835 for water and .0023364 for
3 wastewater were provided by the ORS Water and Wastewater Department.

4 Adjustment 32 – The Company and ORS propose to remove the interest during
5 construction.

6 Adjustment 33 – ORS proposes to adjust plant in service for net plant additions of
7 \$455,860. Several adjustments from Docket No. 2009-473-WS were included by
8 ORS in the calculation of net plant additions. These adjustments were approved
9 by Commission Order No. 2010-577, but were not posted by Tega Cay to their
10 books and records. Also included in the calculation of the net plant additions
11 were pro forma plant additions through November 1, 2012, removal of plant
12 deemed not used or useful, removal of items that should have been expensed
13 rather than capitalized, retirements of plant, and adjustments to vehicles and
14 computers.

15 Adjustment 34 – ORS proposes to adjust plant for time spent by operators on
16 capital projects during the test year. ORS's capitalized salary adjustment amounts
17 to \$989 as calculated in ORS Adjustment 15.

18 Adjustment 35 – ORS proposes to adjust accumulated depreciation by \$170,779.
19 Accumulated depreciation is adjusted for items added to or removed from plant in
20 service as part of ORS Adjustment 33.

21 Adjustment 36 – ORS proposes to adjust cash working capital after accounting
22 and pro forma adjustments. ORS proposes to decrease cash working capital by
23 (\$36,464). Details of this adjustment are included in Audit Exhibit CLS-7.

1 Adjustment 37 – ORS proposes to adjust CIAC by \$41 to reflect the amortization
2 of CIAC expense, as a result of ORS Adjustment 26.

3 Adjustment 38 – ORS proposes to adjust customer deposits by (\$1,347) to reflect
4 the correct per book figure of (\$37,194).

5 Adjustment 39 – ORS proposes to adjust allowable interest expense to reflect the
6 rate base after accounting and pro forma adjustments using the capitalization ratio
7 of 50.25% for debt and 49.75% for equity and a cost of debt of 6.58%. ORS
8 computed an adjustment of (\$36,478), resulting in allowable interest expense of
9 \$137,581. See Audit Exhibit CLS-8 for ORS's computation of interest expense.
10 Details of the capital structure can be found in the testimony of ORS witness, Dr.
11 Douglas H. Carlisle.

12 Adjustment 40 – Based upon ORS Water and Wastewater Department calculations,
13 Tega Cay's proposed rates would produce additional revenues of \$137,816 for
14 Water Operations and \$547,476 for Wastewater Operations. Details of these
15 adjustments are shown in the direct testimony of ORS Water and Wastewater
16 witness, Willie Morgan.

17 Adjustment 41 – ORS proposes to adjust miscellaneous revenue for the Company's
18 proposed rate increase. Details of the adjustment for \$3,086 are shown in the direct
19 testimony of ORS Water and Wastewater witness, Willie Morgan.

20 Adjustment 42 – ORS proposes to adjust uncollectible accounts for the Company's
21 proposed rate increase. The uncollectible accounts adjustment of (\$3,252) was
22 provided by ORS Water and Wastewater witness, Willie Morgan.

1 Adjustment 43 – ORS proposes to adjust gross receipts and utility/commission
2 taxes for the Company’s proposed rate increase. A total factor of .0093559,
3 comprised of the SC Department of Revenue factor of .003 and the PSC/ORS
4 factor of .0063559, was used to compute this adjustment. ORS proposes to increase
5 gross receipts taxes by \$6,410.

6 Adjustment 44 – ORS proposes to adjust income taxes for the Company’s proposed
7 rate increase. See Audit Exhibit CLS-6 for the computation of income taxes.

8 Adjustment 45 – ORS proposes to adjust customer growth for the Company’s
9 proposed rate increase. The growth factors of .0028835 for water and .0023364 for
10 wastewater were provided by ORS Water and Wastewater Department.

11 **Q. PLEASE DESCRIBE THE REMAINING AUDIT EXHIBITS.**

12 **A.** Audit Exhibit CLS-5 shows the computation of ORS depreciation and
13 amortization expense adjustments. Audit Exhibit CLS-6 shows the computation
14 of income taxes. Audit Exhibit CLS-7 shows the calculation of the cash working
15 capital allowance. Audit Exhibit CLS-8 shows the calculation of return on equity.

16 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

17 **A.** Yes.

Docket No. 2012-177-WS

Operating Experience, Rate Base and Rates of Return
For the Test Year Ended December 31, 2011

Description	(1)	(2)	(3)	(4)	(5)
	Application Per Books \$	Accounting & Pro Forma Adjustments \$	After Accounting & Pro Forma Adjustments \$	Applicant's Proposed Increase \$	After Applicant's Proposed Increase \$
Combined Operations					
Operating Revenues:					
Service Revenues - Water	393,139	9,420 (A)	402,559	137,816 (AD)	540,375
Service Revenues - Sewer	814,122	4,263 (A)	818,385	547,476 (AD)	1,365,861
Miscellaneous Revenues	34,997	(5,187) (B)	29,810	3,086 (AE)	32,896
Uncollectible Accounts	(5,869)	(40) (C)	(5,909)	(3,252) (AF)	(9,161)
Total Operating Revenues	1,236,389	8,456	1,244,845	685,126	1,929,971
Maintenance Expenses:					
Salaries and Wages	161,519	1,656 (D)	163,175	0	163,175
Purchased Power	65,506	0	65,506	0	65,506
Purchased Sewer & Water	(2,508)	0 (E)	(2,508)	0	(2,508)
Maintenance and Repair	277,714	28,643 (F)	306,357	0	306,357
Maintenance and Testing	9,280	(4,181) (G)	5,099	0	5,099
Meter Reading	13,238	0 (H)	13,238	0	13,238
Chemicals	54,892	(14,754) (I)	40,138	0	40,138
Transportation	40,481	0	40,481	0	40,481
Operating Exp. Charged to Plant	(97,030)	(989) (J)	(98,019)	0	(98,019)
Total	523,092	10,375	533,467	0	533,467
General Expenses:					
Salaries and Wages	91,697	(3,243) (K)	88,454	0	88,454
Office Supplies & Other Office Exp.	113,432	(60,074) (L)	53,358	0	53,358
Regulatory Commission Exp.	61,171	(40,736) (M)	20,435	0	20,435
Pension & Other Benefits	57,734	(7,664) (N)	50,070	0	50,070
Rent	381	0	381	0	381
Insurance	28,953	(2,363) (O)	26,590	0	26,590
Office Utilities	42,111	0	42,111	0	42,111
Outside Services - Other	7,726	7,134 (P)	14,860	0	14,860
Miscellaneous	9,525	(253) (Q)	9,272	0	9,272
Total	412,730	(107,199)	305,531	0	305,531
Depreciation	259,474	5,156 (R)	264,630	0	264,630
Amortization of CIAC	(130,432)	(41) (S)	(130,473)	0	(130,473)
Taxes Other Than Income	194,889	(3,583) (T)	191,306	6,410 (AG)	197,716
Income Taxes - State & Federal	176,441	(198,319) (U)	(21,878)	259,610 (AH)	237,732
Total	500,372	(196,787)	303,585	266,020	569,605
Total Operating Expenses	1,436,194	(293,611)	1,142,583	266,020	1,408,603
Total Operating Income	(199,805)	302,067	102,262	419,106	521,368
Add: Customer Growth	0	248 (V)	248	1,026 (AI)	1,274
Less: Interest During Construction	(19,664)	19,664 (W)	0	0	0
Net Income for Return	(180,141)	282,651	102,510	420,132	522,642
Original Cost Rate Base:					
Gross Plant in Service	14,611,964	456,849 (X)	15,068,813	0	15,068,813
Accumulated Depreciation	(4,409,031)	170,779 (Y)	(4,238,252)	0	(4,238,252)
Net Plant in Service	10,202,933	627,628	10,830,561	0	10,830,561
Cash Working Capital	141,339	(36,464) (Z)	104,875	0	104,875
Contributions in Aid of Construction	(5,864,367)	41 (AA)	(5,864,326)	0	(5,864,326)
Accumulated Deferred Income Taxes	(872,938)	0	(872,938)	0	(872,938)
Customer Deposits	(35,847)	(1,347) (AB)	(37,194)	0	(37,194)
Total Rate Base	3,571,120	589,858	4,160,978	0	4,160,978
Return on Rate Base	(Note 1)	-5.60%	2.46%		12.56%
Interest Expense	174,059	(36,478) (AC)	137,581	0	137,581

Note 1: Tega Cay's return on rate base in the application is calculated using total operating income instead of using net income for return.

Tega Cay Water Service, Inc.
Docket No. 2012-177-WS
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended December 31, 2011

Audit Exhibit CLS-2

	(1)	(2)	(3)	(4)	(6)
	Application	Accounting	After	Applicant's	After
	Per	&	Accounting &	Proposed	Applicant's
	Books	Pro Forma	Pro Forma	Increase	Proposed
	\$	Adjustments	Adjustments	\$	Increase
<u>Description</u>					\$
<u>Operating Revenues:</u>					
Service Revenues - Water	393,139	9,420 (A)	402,559	137,816 (AD)	540,375
Miscellaneous Revenues	17,607	2,494 (B)	20,101	453 (AE)	20,554
Uncollectible Accounts	(2,953)	1,005 (C)	(1,948)	(649) (AF)	(2,597)
<u>Total Operating Revenues</u>	<u>407,793</u>	<u>12,919</u>	<u>420,712</u>	<u>137,620</u>	<u>558,332</u>
<u>Maintenance Expenses:</u>					
Salaries and Wages	81,260	833 (D)	82,093	0	82,093
Purchased Power	3,016	0	3,016	0	3,016
Purchased Water	(2,508)	0 (E)	(2,508)	0	(2,508)
Maintenance and Repair	29,617	20,705 (F)	50,322	0	50,322
Maintenance Testing	1,831	(4,181) (G)	(2,350)	0	(2,350)
Meter Reading	6,660	6,578 (H)	13,238	0	13,238
Chemicals	27,616	(27,616) (I)	0	0	0
Transportation	20,366	0	20,366	0	20,366
Operating Exp. Charged to Plant	(48,816)	(498) (J)	(49,314)	0	(49,314)
Total	<u>119,042</u>	<u>(4,179)</u>	<u>114,863</u>	<u>0</u>	<u>114,863</u>
<u>General Expenses:</u>					
Salaries and Wages	46,133	(1,632) (K)	44,501	0	44,501
Office Supplies & Other Office Exp.	26,881	(37) (L)	26,844	0	26,844
Regulatory Commission Exp.	30,775	(20,494) (M)	10,281	0	10,281
Pension & Other Benefits	29,046	(3,856) (N)	25,190	0	25,190
Rent	192	0	192	0	192
Insurance	14,566	(1,189) (O)	13,377	0	13,377
Office Utilities	21,186	0	21,186	0	21,186
Outside Services - Other	3,887	3,589 (P)	7,476	0	7,476
Miscellaneous	4,792	(127) (Q)	4,665	0	4,665
Total	<u>177,458</u>	<u>(23,746)</u>	<u>153,712</u>	<u>0</u>	<u>153,712</u>
Depreciation	69,547	(6,953) (R)	62,594	0	62,594
Amortization of CIAC	(32,354)	(14) (S)	(32,368)	0	(32,368)
Taxes Other Than Income	98,049	(3,727) (T)	94,322	1,288 (AG)	95,610
Income Taxes - State & Federal	88,767	(78,164) (U)	10,603	52,148 (AH)	62,751
Total	<u>224,009</u>	<u>(88,858)</u>	<u>135,151</u>	<u>53,436</u>	<u>188,587</u>
<u>Total Operating Expenses</u>	<u>520,509</u>	<u>(116,783)</u>	<u>403,726</u>	<u>53,436</u>	<u>457,162</u>
<u>Total Operating Income</u>	<u>(112,716)</u>	<u>129,702</u>	<u>16,986</u>	<u>84,184</u>	<u>101,170</u>
Add: Customer Growth	0	49 (V)	49	243 (AI)	292
Less: Interest During Construction	(9,893)	9,893 (W)	0	0	0
<u>Net Income for Return</u>	<u>(102,823)</u>	<u>119,858</u>	<u>17,035</u>	<u>84,427</u>	<u>101,462</u>
<u>Original Cost Rate Base:</u>					
Gross Plant in Service	3,265,714	(387,833) (X)	2,877,881	0	2,877,881
Accumulated Depreciation	(1,060,134)	65,660 (Y)	(994,474)	0	(994,474)
Net Plant in Service	2,205,580	(322,173)	1,883,407	0	1,883,407
Cash Working Capital	49,319	(15,747) (Z)	33,572	0	33,572
Contributions in Aid of Construction	(1,463,106)	14 (AA)	(1,463,092)	0	(1,463,092)
Accumulated Deferred Income Taxes	(439,175)	0	(439,175)	0	(439,175)
Customer Deposits	(18,712)	0 (AB)	(18,712)	0	(18,712)
<u>Total Rate Base</u>	<u>333,906</u>	<u>(337,906)</u>	<u>(4,000)</u>	<u>0</u>	<u>(4,000)</u>
<u>Return on Rate Base</u>	<u>(Note 1)</u>	<u>-33.76%</u>	<u>-425.88%</u>		<u>-2536.55%</u>
<u>Interest Expense</u>	<u>87,569</u>	<u>(87,701) (AC)</u>	<u>(132)</u>	<u>0</u>	<u>(132)</u>

Note 1: Tega Cay's return on rate base in the application is calculated using total operating income instead of using net income for return.

Tega Cay Water Service, Inc.
Docket No. 2012-177-WS
Operating Experience, Rate Base and Rates of Return
For the Test Year Ended December 31, 2011
Wastewater Operations

Audit Exhibit CLS-3

<u>Description</u>	(1) Application Per Books \$	(2) Accounting & Pro Forma Adjustments \$	(3) After Accounting & Pro Forma Adjustments \$	(4) Applicant's Proposed Increase \$	(6) After Applicant's Proposed Increase \$
<u>Operating Revenues:</u>					
Service Revenues - Sewer	814,122	4,263 (A)	818,385	547,476 (AD)	1,365,861
Miscellaneous Revenues	17,390	(7,681) (B)	9,709	2,633 (AE)	12,342
Uncollectible Accounts	(2,916)	(1,045) (C)	(3,961)	(2,603) (AF)	(6,564)
<u>Total Operating Revenues</u>	828,596	(4,463)	824,133	547,506	1,371,639
<u>Maintenance Expenses:</u>					
Salaries and Wages	80,259	823 (D)	81,082	0	81,082
Purchased Power	62,490	0	62,490	0	62,490
Purchased Sewer	0	0 (E)	0	0	0
Maintenance and Repair	248,097	7,938 (F)	256,035	0	256,035
Maintenance Testing	7,449	0 (G)	7,449	0	7,449
Meter Reading	6,578	(6,578) (H)	0	0	0
Chemicals	27,276	12,862 (I)	40,138	0	40,138
Transportation	20,115	0	20,115	0	20,115
Operating Exp. Charged to Plant	(48,214)	(491) (J)	(48,705)	0	(48,705)
Total	404,050	14,554	418,604	0	418,604
<u>General Expenses:</u>					
Salaries and Wages	45,564	(1,611) (K)	43,953	0	43,953
Office Supplies & Other Office Exp.	86,551	(60,037) (L)	26,514	0	26,514
Regulatory Commission Exp.	30,396	(20,242) (M)	10,154	0	10,154
Pension & Other Benefits	28,688	(3,808) (N)	24,880	0	24,880
Rent	189	0	189	0	189
Insurance	14,387	(1,174) (O)	13,213	0	13,213
Office Utilities	20,925	0	20,925	0	20,925
Outside Services - Other	3,839	3,545 (P)	7,384	0	7,384
Miscellaneous	4,733	(126) (Q)	4,607	0	4,607
Total	235,272	(83,453)	151,819	0	151,819
Depreciation	189,927	12,109 (R)	202,036	0	202,036
Amortization of CIAC	(98,078)	(27) (S)	(98,105)	0	(98,105)
Taxes Other Than Income	96,840	144 (T)	96,984	5,122 (AG)	102,106
Income Taxes - State & Federal	87,674	(120,155) (U)	(32,481)	207,462 (AH)	174,981
Total	276,363	(107,929)	168,434	212,584	381,018
<u>Total Operating Expenses</u>	915,685	(176,828)	738,857	212,584	951,441
<u>Total Operating Income</u>	(87,089)	172,365	85,276	334,922	420,198
Add: Customer Growth	0	199 (V)	199	783 (AI)	982
Less: Interest During Construction	(9,771)	9,771 (W)	0	0	0
<u>Net Income for Return</u>	(77,318)	162,793	85,475	335,705	421,180
<u>Original Cost Rate Base:</u>					
Gross Plant in Service	11,346,250	844,682 (X)	12,190,932	0	12,190,932
Accumulated Depreciation	(3,348,897)	105,119 (Y)	(3,243,778)	0	(3,243,778)
Net Plant in Service	7,997,353	949,801	8,947,154	0	8,947,154
Cash Working Capital	92,020	(20,717) (Z)	71,303	0	71,303
Contributions in Aid of Construction	(4,401,261)	27 (AA)	(4,401,234)	0	(4,401,234)
Accumulated Deferred Income Taxes	(433,763)	0	(433,763)	0	(433,763)
Customer Deposits	(17,135)	(1,347) (AB)	(18,482)	0	(18,482)
<u>Total Rate Base</u>	3,237,214	927,764	4,164,978	0	4,164,978
<u>Return on Rate Base</u>	(Note 1)	-2.69%	2.05%		10.11%
<u>Interest Expense</u>	86,490	51,223 (AC)	137,713	0	137,713

Note 1: Tega Cay's return on rate base in the application is calculated using total operating income instead of using net income for return.

Tega Cay Water Service, Inc.
Docket No. 2012-177-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2011

Audit Exhibit CLS-4
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Tega Cay ORS Adj Adj	Description	\$ Combined Operations	\$ Water Operations	\$ Wastewater Operations
<u>Accounting and Pro forma Adjustments</u>				
(A) Service Revenues				
[a]	1 To adjust service revenues to reflect test year customer billings.			
	Per ORS	13,683	9,420	4,263
	Per Tega Cay	23,064	20,676	2,388
(B) Miscellaneous Revenues				
	2 To adjust miscellaneous revenues.			
	Per ORS	(5,187)	2,494	(7,681)
	Per Tega Cay	0	0	0
(C) Uncollectible Accounts				
[b]	3 To adjust uncollectible accounts to reflect accounting and pro forma adjustments to service revenues.			
	Per ORS	(40)	1,005	(1,045)
	Per Tega Cay	(164)	(155)	(9)
(D) Salaries & Wages - Maintenance				
[c]	4 To annualize operators' salaries for the test year.			
	Per ORS	1,656	833	823
	Per Tega Cay	6,569	3,307	3,263
(E) Purchased Sewer & Water				
[f]	5 ORS does not propose an adjustment to purchased water.			
	Per ORS	0	0	0
	Per Tega Cay	2,508	2,508	0
(F) Maintenance and Repair				
	6 To remove deferred maintenance expenses.			
	Per ORS	(9,012)	(4,534)	(4,478)
	Per Tega Cay	0	0	0

Tega Cay Water Service, Inc.
Docket No. 2012-177-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2011

Audit Exhibit CLS-4
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Tega Cay	ORS	Description	\$ Combined Operations	\$ Water Operations	\$ Wastewater Operations
Adj	Adj				
7 To remove expenses not associated with Tega Cay operations.					
	Per ORS		(400)	0	(400)
	Per Tega Cay		0	0	0
8 To remove expenses outside the test year.					
	Per ORS		(480)	(241)	(239)
	Per Tega Cay		0	0	0
9 To increase maintenance expense for items that should have been expensed and not capitalized during the test year.					
	Per ORS		38,535	25,480	13,055
	Per Tega Cay		0	0	0
(F) Maintenance and Repair - Total Per ORS			<u>28,643</u>	<u>20,705</u>	<u>7,938</u>
(G) Maintenance Testing					
10 To remove late fees.					
	Per ORS		(180)	(180)	0
	Per Tega Cay		0	0	0
11 To remove expenses not associated with Tega Cay operations.					
	Per ORS		(4,001)	(4,001)	0
	Per Tega Cay		0	0	0
(G) Maintenance Testing - Total Per ORS			<u>(4,181)</u>	<u>(4,181)</u>	<u>0</u>
(H) Meter Reading					
12 To reclassify meter reading expenses to water operations.					
	Per ORS		0	6,578	(6,578)
	Per Tega Cay		0	0	0
(I) Chemicals					
13 To remove expenses not associated with Tega Cay operations.					
	Per ORS		(14,754)	(7,423)	(7,331)
	Per Tega Cay		0	0	0

Tega Cay Water Service, Inc.
Docket No. 2012-177-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2011

Audit Exhibit CLS-4
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Tega			\$	\$	\$
Cay	ORS		Combined	Water	Wastewater
Adj	Adj	Description	Operations	Operations	Operations
		14 To reclassify the remaining chemical expenses to wastewater.			
		Per ORS	0	(20,193)	20,193
		Per Tega Cay	0	0	0
		(I) Chemicals - Total Per ORS	(14,754)	(27,616)	12,862
		(J) Operating Expenses Charged to Plant			
		15 To adjust operating expense charged to plant (capitalized time) for time spent by operators on capital projects.			
		Per ORS	(989)	(498)	(491)
		Per Tega Cay	0	0	0
		(K) Salaries & Wages - General Expense			
[c]		16 To annualize office salaries for the test year.			
		Per ORS	(3,243)	(1,632)	(1,611)
		Per Tega Cay	(402)	(201)	(200)
		(L) Office Supplies & Other Office Expense			
[k]		17 To remove nonallowable amounts for DHEC fines and penalties and holiday events from office supplies and other office expenses.			
		Per ORS	(60,074)	(37)	(60,037)
		Per Tega Cay	(60,001)	0	(60,001)
		(M) Regulatory Commission Expense			
[e]		18 To amortize rate case expenses over a three-year period.			
		Per ORS	(40,736)	(20,494)	(20,242)
		Per Tega Cay	22,554	11,348	11,206
		(N) Pension & Other Benefits			
[c]		19 To annualize pension and other benefits associated with the adjusted test year salaries.			
		Per ORS	(7,664)	(3,856)	(3,808)
		Per Tega Cay	3,048	1,534	1,514

Tega Cay Water Service, Inc.
Docket No. 2012-177-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2011

Audit Exhibit CLS-4
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Tega Cay	ORS	Description	\$ Combined Operations	\$ Water Operations	\$ Wastewater Operations
Adj	Adj				
(O) Insurance					
		20 To remove undocumented insurance expense.			
		Per ORS	(2,363)	(1,189)	(1,174)
		Per Tega Cay	0	0	0
(P) Outside Services - Other					
		21 To remove nonallowable expenses for expenses associated with DHEC penalties and fines.			
		Per ORS	(50)	(25)	(25)
		Per Tega Cay	0	0	0
		22 To adjust for a recording error of engineering fees.			
		Per ORS	7,184	3,614	3,570
		Per Tega Cay	0	0	0
		(P) Outside Services - Other - Total Per ORS	7,134	3,589	3,545
(Q) Miscellaneous					
[l]		23 ORS does not propose an adjustment for Tega Cay's proposed Leak Mitigation Program.			
		Per ORS	0	0	0
		Per Tega Cay	28,481	28,481	0
		24 To remove nonallowable expenses associated with DHEC penalties and fines.			
		Per ORS	(253)	(127)	(126)
		Per Tega Cay	0	0	0
		(Q) Miscellaneous - Total Per ORS	(253)	(127)	(126)
(R) Depreciation Expense					
[f]		25 To annualize depreciation expense for net plant additions and capitalized time. See Audit Exhibit CLS-5.			
		Per ORS	5,156	(6,953)	12,109
		Per Tega Cay	83,344	23,559	59,785

Tega Cay Water Service, Inc.
Docket No. 2012-177-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2011

Audit Exhibit CLS-4
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Tega Cay ORS Adj Adj	Description	\$ Combined Operations	\$ Water Operations	\$ Wastewater Operations
(S) Amortization of Contributions in Aid of Construction (CIAC)				
[m]	26 To annualize the amortization of CIAC expense. See Audit Exhibit CLS-5.			
	Per ORS	(41)	(14)	(27)
	Per Tega Cay	(40)	(13)	(27)
(T) Taxes Other Than Income				
[g]	27 To adjust payroll taxes associated with the annualized salaries.			
	Per ORS	(17)	(9)	(8)
	Per Tega Cay	671	338	333
	28 To adjust gross receipts and utility/commission taxes after the accounting and pro forma adjustments using a factor of .0093559 (.003 for SCDOR and .0063559 for PSC/ORS).			
	Per ORS	(3,360)	(3,614)	254
	Per Tega Cay	0	0	0
	29 To adjust personal property, general, and real estate taxes to reflect the actual test year amount.			
	Per ORS	(206)	(104)	(102)
	Per Tega Cay	0	0	0
	(T) Taxes Other Than Income - Total Per ORS	(3,583)	(3,727)	144
(U) Income Taxes				
[h]	30 To adjust state and federal income taxes after accounting and pro forma adjustments. See Audit Exhibit CLS-6.			
	Per ORS	(198,319)	(78,164)	(120,155)
	Per Tega Cay	(269,899)	(122,028)	(147,871)
(V) Customer Growth				
	31 To adjust for customer growth after accounting and pro forma adjustments. The growth factors of .0028835 for water and .0023364 for wastewater were provided by the ORS Water and Wastewater Department.			
	Per ORS	248	49	199
	Per Tega Cay	0	0	0

Tega Cay Water Service, Inc.
Docket No. 2012-177-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2011

Audit Exhibit CLS-4
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Tega Cay ORS Adj Adj	Description	\$ Combined Operations	\$ Water Operations	\$ Wastewater Operations
(W) Interest During Construction (IDC)				
[i]	32 To eliminate IDC for rate making purposes.			
	Per ORS	19,664	9,893	9,771
	Per Tega Cay	19,663	9,893	9,771
(X) Gross Plant in Service				
[a] & [d]	33 To adjust plant in service for net plant additions.			
	Per ORS	455,860	(388,331)	844,191
	Per Tega Cay	1,113,913	8,223	1,105,690
	34 To capitalize salaries, taxes, and benefits associated with Operating Expenses Charged to Plant.			
	Per ORS	989	498	491
	Per Tega Cay	0	0	0
	(X) Gross Plant in Service - Total Per ORS	456,849	(387,833)	844,682
(Y) Accumulated Depreciation				
[b]	35 To adjust accumulated depreciation for items included or removed from gross plant in service.			
	Per ORS	170,779	65,660	105,119
	Per Tega Cay	49,146	33,605	15,541
(Z) Cash Working Capital				
[c]	36 To adjust cash working capital after accounting and pro forma adjustments. See Audit Exhibit CLS-7.			
	Per ORS	(36,464)	(15,747)	(20,717)
	Per Tega Cay	1,264	6,067	(4,803)

Tega Cay Water Service, Inc.
Docket No. 2012-177-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2011

Audit Exhibit CLS-4
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Tega Cay ORS Adj Adj	Description	\$ Combined Operations	\$ Water Operations	\$ Wastewater Operations
(AA) Contributions in Aid of Construction (CIAC)				
	37 To adjust CIAC to reflect the amortization of CIAC expense as a result of ORS Adjustment 26.			
	Per ORS	41	14	27
	Per Tega Cay	0	0	0
(AB) Customer Deposits				
	38 To adjust customer deposits to reflect the per book figure.			
	Per ORS	(1,347)	0	(1,347)
	Per Tega Cay	0	0	0
(AC) Interest Expense				
[j]	39 To adjust interest on debt using a 50.25% and 49.75% debt to equity ratio and 6.58% cost of debt. ORS computed allowable interest expense after accounting and pro forma adjustments. See Audit Exhibit CLS-8.			
	Per ORS	(36,478)	(87,701)	51,223
	Per Tega Cay	(16,920)	(74,900)	57,980
<u>Proposed Increase</u>				
(AD) Service Revenues				
	40 To adjust water and wastewater service revenues for ORS's recalculation of the Applicant's proposed rate increase.			
	Per ORS	685,292	137,816	547,476
	Per Tega Cay	668,394	122,564	545,830
(AE) Miscellaneous Revenues				
	41 To adjust miscellaneous revenues.			
	Per ORS	3,086	453	2,633
	Per Tega Cay	0	0	0

Tega Cay Water Service, Inc.
Docket No. 2012-177-WS
Explanation of Accounting and Pro Forma Adjustments
For the Test Year Ended December 31, 2011

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Tega Cay ORS Adj Adj	Description	\$ Combined Operations	\$ Water Operations	\$ Wastewater Operations
(AF) Uncollectible Accounts				
	42 To adjust uncollectible accounts for the Applicant's proposed rate increase.			
	Per ORS	(3,252)	(649)	(2,603)
	Per Tega Cay	(2,876)	(921)	(1,955)
(AG) Taxes Other Than Income				
[h]	43 To adjust gross receipts and utility/commission taxes for the Applicant's proposed rate increase using a factor of .0093559 (.003 for SCDOR and .0063559 for PSC/ORS).			
	Per ORS	6,410	1,288	5,122
	Per Tega Cay	6,684	1,226	5,458
(AH) Income Taxes				
[i]	44 To adjust state and federal income taxes for the Applicant's proposed rate increase. See Audit Exhibit CLS-6.			
	Per ORS	259,610	52,148	207,462
	Per Tega Cay	252,004	46,060	205,945
(AI) Customer Growth				
	45 To adjust for customer growth after proposed increase adjustments. The growth factors of .0028835 for water and .0023364 for wastewater were provided by the Water and Wastewater Department.			
	Per ORS	1,026	243	783
	Per Tega Cay	0	0	0

Tega Cay Water Service, Inc.
Docket No. 2012-177-WS
Depreciation and Amortization Expense Adjustments
For the Test Year Ended December 31, 2011

	<u>Combined Operations</u> \$	<u>Water Operations</u> \$	<u>Wastewater Operations</u> \$
<u>Depreciation Adjustment</u>			
Gross Plant @ 12/31/11	14,611,964	3,265,714	11,346,250
Add:			
Net Plant Additions @ 11/1/12	455,860	(388,331)	844,191
Capitalized Time from Wages Adjustment @ 8/15/12	989	498	491
Less:			
Organization @ 12/31/11	(244,495)	(125,040)	(119,455)
Land @ 12/31/11	(11,158)	(3,083)	(8,075)
Vehicles @ 12/31/11	(107,013)	(53,838)	(53,175)
Computers @ 12/31/11	(360,156)	(181,195)	(178,961)
<u>Net Plant</u>	14,345,991	2,514,725	11,831,266
Plant Depreciation @ 1.5% (66.67 years)	<u>215,190</u>	<u>37,721</u>	<u>177,469</u>
<u>Vehicles @ 12/31/11</u>	107,013	53,838	53,175
Less: Fully Depreciated Vehicles	<u>(33,082)</u>	<u>(16,644)</u>	<u>(16,438)</u>
	73,931	37,194	36,737
Vehicle Depreciation @ 16.67% (6 years)	<u>12,324</u>	<u>6,200</u>	<u>6,124</u>
<u>Computers @ 12/31/11</u>	360,156	181,195	178,961
Less: Fully Depreciated Computers	<u>(63,231)</u>	<u>(31,812)</u>	<u>(31,419)</u>
	296,925	149,383	147,542
Computer Depreciation @ 12.5% (8 years)	<u>37,116</u>	<u>18,673</u>	<u>18,443</u>
Total Depreciation	<u>264,630</u>	<u>62,594</u>	<u>202,036</u>
Less: Per Books Depreciation	<u>259,474</u>	<u>69,547</u>	<u>189,927</u>
<u>ORS Adjustment</u>	<u>5,156</u>	<u>(6,953)</u>	<u>12,109</u>
Company's Adjustment	<u>83,344</u>	<u>23,559</u>	<u>59,785</u>
<u>Amortization of CIAC Adjustment</u>			
Gross CIAC @ 12/31/11	(8,698,168)	(2,157,850)	(6,540,318)
CIAC Amortization @ 1.5% (66.67 years)	(130,473)	(32,368)	(98,105)
Less: Per Books Amortization of CIAC	<u>(130,432)</u>	<u>(32,354)</u>	<u>(98,078)</u>
<u>ORS Adjustment</u>	<u>(41)</u>	<u>(14)</u>	<u>(27)</u>
Company's Adjustment	<u>(40)</u>	<u>(13)</u>	<u>(27)</u>

Tega Cay Water Service, Inc.
Docket No. 2012-177-WS
Computation of Income Taxes
For the Test Year Ended December 31, 2011

After Accounting & Pro Forma Adjustments

	\$ Combined Operations	\$ Water Operations	\$ Wastewater Operations
Operating Revenues	1,244,845	420,712	824,133
Operating Expenses	<u>1,164,461</u>	<u>393,123</u>	<u>771,338</u>
Net Operating Income Before Taxes	80,384	27,589	52,795
Less: Annualized Interest Expense	<u>137,581</u>	<u>(132)</u>	<u>137,713</u>
Taxable Income - State	(57,197)	27,721	(84,918)
State Income Tax %	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>
State Income Taxes	(2,860)	1,386	(4,246)
Less: State Income Taxes Per Book	<u>23,586</u>	<u>11,866</u>	<u>11,720</u>
Adjustment to State Income Taxes	<u>(26,446)</u>	<u>(10,480)</u>	<u>(15,966)</u>
Taxable Income - Federal	(54,337)	26,335	(80,672)
Federal Income Taxes %	<u>35.0%</u>	<u>35.0%</u>	<u>35.0%</u>
Federal Income Taxes	(19,018)	9,217	(28,235)
Less: Federal Income Taxes Per Book	<u>152,855</u>	<u>76,901</u>	<u>75,954</u>
Adjustment to Federal Income Taxes	<u>(171,873)</u>	<u>(67,684)</u>	<u>(104,189)</u>
Total Adjustment to Income Taxes	<u>(198,319)</u>	<u>(78,164)</u>	<u>(120,155)</u>

After Applicant's Proposed Increase

	\$ Combined Operations	\$ Water Operations	\$ Wastewater Operations
Operating Revenues	1,929,971	558,332	1,371,639
Operating Expenses	<u>1,170,871</u>	<u>394,411</u>	<u>776,460</u>
Net Operating Income Before Taxes	759,100	163,921	595,179
Less: Annualized Interest Expense	<u>137,581</u>	<u>(132)</u>	<u>137,713</u>
Taxable Income - State	621,519	164,053	457,466
State Income Tax %	<u>5.0%</u>	<u>5.0%</u>	<u>5.0%</u>
State Income Taxes	31,076	8,203	22,873
Less: State Income Taxes As Adjusted	<u>(2,860)</u>	<u>1,386</u>	<u>(4,246)</u>
Adjustment to State Income Taxes	<u>33,936</u>	<u>6,817</u>	<u>27,119</u>
Taxable Income - Federal	590,443	155,850	434,593
Federal Income Taxes %	<u>35.0%</u>	<u>35.0%</u>	<u>35.0%</u>
Federal Income Taxes	206,656	54,548	152,108
Less: Federal Income Taxes As Adjusted	<u>(19,018)</u>	<u>9,217</u>	<u>(28,235)</u>
Adjustment to Federal Income Taxes	<u>225,674</u>	<u>45,331</u>	<u>180,343</u>
Total Adjustment to Income Taxes	<u>259,610</u>	<u>52,148</u>	<u>207,462</u>

Tega Cay Water Service, Inc.
Docket No. 2012-177-WS
Cash Working Capital Allowance
For the Test Year Ended December 31, 2011

<u>After Accounting & Pro Forma Adjustments</u>	<u>\$ Combined Operations</u>	<u>\$ Water Operations</u>	<u>\$ Wastewater Operations</u>
Maintenance Expenses	533,467	114,863	418,604
General Expenses	<u>305,531</u>	<u>153,712</u>	<u>151,819</u>
Total Expenses for Computation	838,998	268,575	570,423
Allowable Rate	<u>12.50%</u>	<u>12.50%</u>	<u>12.50%</u>
Computed Cash Working Capital	104,875	33,572	71,303
Cash Working Capital - Application Per Books	<u>141,339</u>	<u>49,319</u>	<u>92,020</u>
Cash Working Capital Adjustment - ORS Accounting & Pro Forma Adjustment	<u>(36,464)</u>	<u>(15,747)</u>	<u>(20,717)</u>
Cash Working Capital Adjustment - Tega Cay	<u>1,264</u>	<u>6,067</u>	<u>(4,803)</u>

Tega Cay Water Service, Inc.
Docket No. 2012-177-WS
Return on Equity
Capital Structure at December 31, 2011

Combined Operations

Description	(Note) Capital Structure	Application Per Books				After Accounting and Pro forma Adjustments				After Applicant's Proposed Increase			
		Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	\$ 180,000,000	50.25%	6.60%	3.32%	\$ 118,436	\$ 2,090,891	6.58%	3.31%	\$ 137,581	\$ 2,090,891	6.58%	3.31%	\$ 137,581
Common Equity	178,201,903	49.75%	-16.81%	-8.36%	(298,577)	2,070,087	-1.69%	-0.85%	(35,071)	2,070,087	18.60%	9.25%	385,061
Totals	\$ 358,201,903	100.00%		-5.04%	\$ (180,141)	\$ 4,160,978		2.46%	\$ 102,510	\$ 4,160,978		12.56%	\$ 522,642

Water Operations

Description	Capital Structure	Ratio	Application Per Books			After Accounting and Pro forma Adjustments			After Applicant's Proposed Increase					
			Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return
Long-Term Debt	\$ 180,000,000	50.25%	\$ 167,788	6.60%	3.32%	\$ 11,074	\$ (2,010)	6.58%	3.31%	\$ (132)	\$ (2,010)	6.58%	3.31%	\$ (132)
Common Equity	178,201,903	49.75%	166,118	-68.56%	-34.11%	(113,897)	(1,990)	-862.66%	-429.19%	17,167	(1,990)	-5105.23%	-2539.86%	101,594
Totals	\$ 358,201,903	100.00%	\$ 333,906		-30.79%	\$ (102,823)	\$ (4,000)	See Note2:	-425.88%	\$ 17,035	\$ (4,000)	See Note2:	-2536.55%	\$ 101,462

Wastewater Operations

Description	Capital Structure	Application Per Books			After Accounting and Pro forma Adjustments			After Applicant's Proposed Increase				
		Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return	Rate Base	Embedded Cost/Return	Overall Cost/Return	Income For Return			
Long-Term Debt	\$ 180,000,000	50.25%	6.60%	3.32%	\$ 107,362	\$ 2,092,901	6.58%	3.31%	\$ 137,713	\$ 2,092,901	6.58%	3.31%
Common Equity	178,201,903	49.75%	-11.47%	-5.71%	(184,680)	2,072,077	-2.52%	-1.26%	(52,238)	2,072,077	13.68%	6.80%
Totals	\$ 358,201,903	100.00%		-2.39%	\$ (77,318)	\$ 4,164,978		2.05%	\$ 85,475	\$ 4,164,978		10.11%

Note1: ORS used the capital structure of the parent company, Utilities, Inc.

Note2: Due to water operations having a negative net rate base on Audit Exhibit CLS-2, the water computations do not reflect actual returns for water operations. However, the proper returns are shown on the combined basis.